

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendraye
Marshall Johnson
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Thomas Pugh
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Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of the Petition of Northern States
Power Company d/b/a Xcel Energy for
Approval of an Affiliated Interest Agreement
with Utility Engineering Corporation LLC for
Services Performed at the A.S. King Plant
Regarding the Company's Metro Area
Emissions Reduction Project

ISSUE DATE: February 22, 2005

DOCKET NO. E-002/AI-04-1110

In the Matter of the Petition of Northern States
Power Company d/b/a Xcel Energy for
Approval of a Rate Rider to Recover Costs for
Emissions Reduction Proposal

DOCKET NO. E-002/M-02-633

ORDER APPROVING AFFILIATED
INTEREST AGREEMENT

PROCEDURAL HISTORY

On July 20, 2004, Northern States Power Company d/b/a Xcel Energy (Xcel) filed a petition for approval of an affiliated interest agreement between Xcel and its affiliate Utility Engineering Corporation, LLC (UEC) for construction management at Xcel's A.S. King Generating Plant.

On September 22, 2004, the Department of Commerce (DOC) filed comments recommending that the Commission approve the affiliated interest agreement with modifications.

On October 4, 2004, Xcel filed reply comments. On November 12, 2004, Xcel filed supplemental reply comments.

On February 10, 2005, this matter came before the Commission.

FINDINGS AND CONCLUSIONS

I. Background

On July 26, 2002, Xcel filed its Metro Area Emissions Reduction Proposal (MERP) seeking to, among other things, add new emissions reduction facilities to Xcel's Allen S. King plant. The Commission issued its ORDER APPROVING XCEL'S PROPOSED PLAN, SUBJECT TO THE

TERMS OF A SETTLEMENT AGREEMENT, AND ADDITIONAL CONDITIONS AND CLARIFICATIONS on March 8, 2004.¹

As part of the Settlement Agreement and pursuant to the terms of the Order, Xcel was required to file for Commission approval of an affiliated interest agreement with UEC for construction project management services on a sole source basis. It is this affiliated interest agreement that is the subject of this Order.

UEC is a wholly owned subsidiary of Xcel providing engineering, development, design, and construction services to Xcel and also to unaffiliated third parties. Prior to the Xcel merger, Northern States Power Company (NSP) employees provided these services. When Xcel was formed, NSP transferred these employees to UEC.

II. The Affiliated Interest Agreement between Xcel and UEC

Under the Agreement UEC is to provide construction management services for the A.S. King rehabilitation portion of MERP. Tasks that UEC will provide include site preparation design, contractor oversight and labor relations with the Building Trades Council, administrative services, document control services, project control services, procurement services and startup/commissioning services. Work on this project is expected to extend through the end of 2007. Services performed by UEC are to be at cost. The total estimated cost of the services performed under this agreement is \$8,083,245.

Xcel argued that the Agreement was reasonable and in the public interest because:

- UEC's rates are at cost and therefore very competitive relative to other potential suppliers.
- UEC has extensive construction experience at the King plant that is relevant to the rehabilitation project. This enables UEC to provide a more reliable and accurate estimate of costs than other vendors.
- UEC's extensive experience at the King plant will enable it to better manage the work and costs of subcontractors, minimize estimate overruns and keep the project costs as low as possible.

¹ *In the Matter of the Petition of Northern states Power Company d/b/a Xcel Energy for approval of a Rate Rider to Recover Costs for Emissions Reduction Proposal*, Docket No. E-002/M-02-633.

III. DOC's Position

The DOC found that the selection of UEC was reasonable based on UEC's providing services at cost and UEC's knowledge of and experience with the King plant. The DOC recommended that the Commission approve the petition with the following modifications:

- A. The costs incurred through the Xcel/UEC King plant contract will be reviewed for recovery eligibility according to the provisions of the Commission's Order in the MERP Docket No. E-002/M-02-633.
- B. Xcel should introduce into the record in this docket any refiled corrected information to the SEC concerning UEC's reported revenues. If Xcel does not file such corrected information with the SEC, the Company should file its reasoning for not correcting the information.
- C. Xcel and UEC should provide to the Commission a revised contract correcting errors presently contained in the contract.
- D. UEC and Xcel should provide a termination date to this affiliated interest agreement of some reasonable time frame such as 90 days after work on the King project is completed.

IV. Xcel's Response to the DOC's Recommendations

A. Regarding UEC's Reported Revenues

Xcel explained that there was an error in its 10K filing with the SEC regarding UEC's reported revenues. Xcel stated that the UEC revenues reported in the 10K were revenues for services performed for both NSP-MN and NSP-WI.

Xcel clarified that the UEC billings for services were correctly recorded on the NSP-MN and NSP-WI books, but receivables for both NSP-MN and MSP-WI were recorded as receivables from only NSP-MN on UEC's financial statements. Xcel indicated that this error has been corrected on a going forward basis. However, Xcel believes the error is immaterial and that it does not require disclosure or correction. Therefore, Xcel will not be filing a correction with the SEC.

B. Modifications to the Affiliated Interest Agreement

Xcel provided a revised copy of the affiliated interest agreement, which corrected certain references in the agreement that were incorrectly labeled,² and added a termination date of December 31, 2007 to the agreement.

² Article II, Section 2.1 of the filed affiliated interest agreement referred to a nonexistent Exhibit D.

V. Commission Action

With no party opposing the affiliated interest agreement and the Department recommending approval, the Commission finds the agreement, as modified by the Department and Xcel's October 4, 2004 and November 12, 2004 supplement, reasonable and in the public interest. The Commission, therefore, will approve the agreement.

ORDER

1. The Commission hereby approves the affiliated interest agreement between Xcel and Utility Engineering Corporation, as modified by the Department and Xcel's October 4, 2004 response and November 12, 2004 supplement.
2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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